



WEEKLY ECONOMIC DIGEST

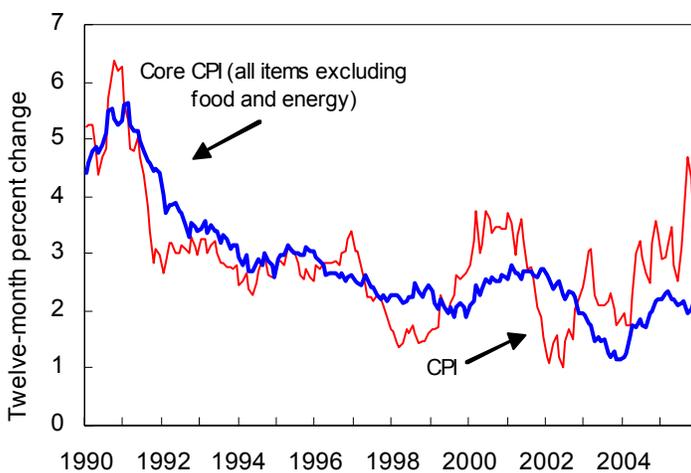


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

December 20, 2005

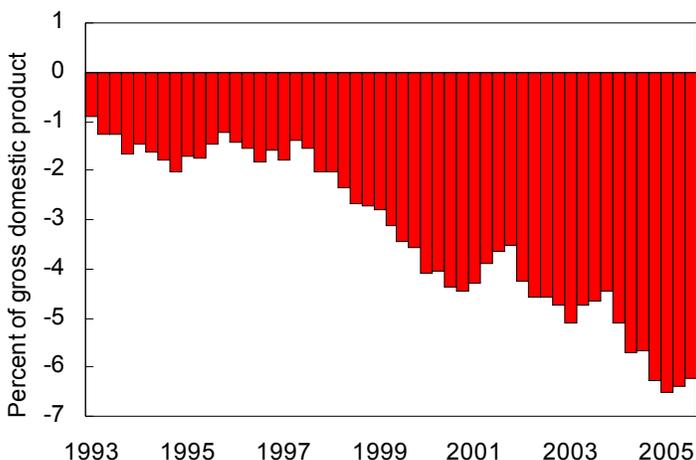
Consumer Prices Fall and the Current Account Balance Narrows, but Probably only Temporarily

Consumer Price Indexes



Source: Bureau of Labor Statistics, U.S. Department of Labor.

U.S. Current Account Balance



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

- **Falling energy prices drove down the consumer price index last month.** The consumer price index (CPI) fell by 0.6 percent in November, led by an 8 percent decline in the index for energy prices. However, consumer energy prices remained 18 percent higher than they were a year earlier, and energy prices appear to be on the rise again. The CPI rose 3.5 percent in the 12 months ending in November (see top chart). The core CPI, which excludes volatile food and energy prices, rose a moderate 0.2 percent in November to a level 2.1 percent higher than it was a year earlier.
- **The current-account deficit narrowed slightly in the third quarter.** The U.S. current-account deficit, which combines the balance on trade in goods and services with the balance on international income flows, edged down by \$2 billion in the third quarter to \$195.8 billion. That amount is equivalent to 6.2 percent of GDP and is close to the record of 6.5 percent of GDP set in the first quarter (see bottom chart). There is some evidence that the modest improvement in the third quarter is temporary and that the deficit could widen again in the fourth quarter. For example, some of the improvement in the third quarter reflected one-time payments from foreign insurers for storm-related property losses. Also, the monthly trade deficit in goods and services was a record \$68.9 billion in October.
- **Industrial production rose in November.** Production in manufacturing, mining, and utilities rose by 0.7 percent last month, after a storm-related downward spike in September and recovery in October. Following four months of declines, energy production rose by 3.8 percent. Factory output rose by 0.3 percent and the average rate of capacity utilization in manufacturing remained at 79.4 percent—still a couple of percentage points below its historical average.

The Economy at a Glance	Nov	Oct	Sep	Aug	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004	2003
Economic Activity										
Real GDP (% growth)*	—	—	—	—	4.3	3.3	3.8	3.3	4.2	2.7
Industrial Production (% growth)	8.7	16.8	-17.6	3.7	1.0	1.6	3.8	4.2	4.1	0.6
Capacity Utilization (level, %)	80.2	79.8	78.9	80.3	79.8	79.9	79.9	79.4	78.6	75.7
Civilian Unemployment Rate (level, %)	5.0	5.0	5.1	4.9	5.0	5.1	5.3	5.4	5.5	6.0
Housing Starts (thousands)*	n.a.	2014	2134	2081	2092	2044	2083	1973	1950	1854
Real Disposable Personal Income (% growth)*	n.a.	2.3	12.5	-16.8	-0.7	0.2	1.0 [#]	4.3 [#]	3.1 [#]	2.4
Retail Sales (% growth)	3.1	4.0	3.7	-19.9	6.9	10.8	5.4	10.4	7.3	4.3
Personal Saving Rate (level, %)*	n.a.	-0.7	-0.8	-2.2	-1.5	-0.2	0.5	1.2 [#]	1.5 [#]	2.1
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	-7.0	2.4	15.4	6.2	5.1	4.2	2.4	3.6	2.7	2.3
Core CPI-U Inflation (% growth)	2.4	2.4	1.2	1.2	1.5	2.0	2.6	2.3	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	3.2	2.8	2.8	3.2	3.9	3.9
Output per Hour (% growth)	—	—	—	—	4.7	2.1	3.2	2.5	3.4	3.8
Financial Markets										
T-bill Rate, 3-month (level, %)	3.88	3.71	3.42	3.44	3.36	2.86	2.54	2.01	1.37	1.01
T-note Rate, 10-years (level, %)	4.54	4.46	4.20	4.26	4.21	4.16	4.30	4.17	4.27	4.01
Federal Funds Rate (level, %)	4.00	3.78	3.62	3.50	3.46	2.94	2.47	1.95	1.35	1.13
Dow Jones Industrial Avg (index level)	10695	10324	10533	10554	10544	10382	10648	10362	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **New Residential Construction: November 2005** [Release: Tuesday, December 20]
- **Producer Price Indexes: November 2005** [Release: Tuesday, December 20]
- **Gross Domestic Product: Third Quarter 2005 (Final)** [Release: Wednesday, December 21]
- **Personal Income and Outlays: November 2005** [Release: Thursday, December 22]
- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: November 2005** [Release: Friday, December 23]
- **New Residential Sales: November 2005** [Release: Friday, December 23]